Real Estate Insights, Forecasts & Strategies
Strategic Advantage
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The Future Of Retail Real Estate… A Tsunami Of Change Underway

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Friends & Colleagues:

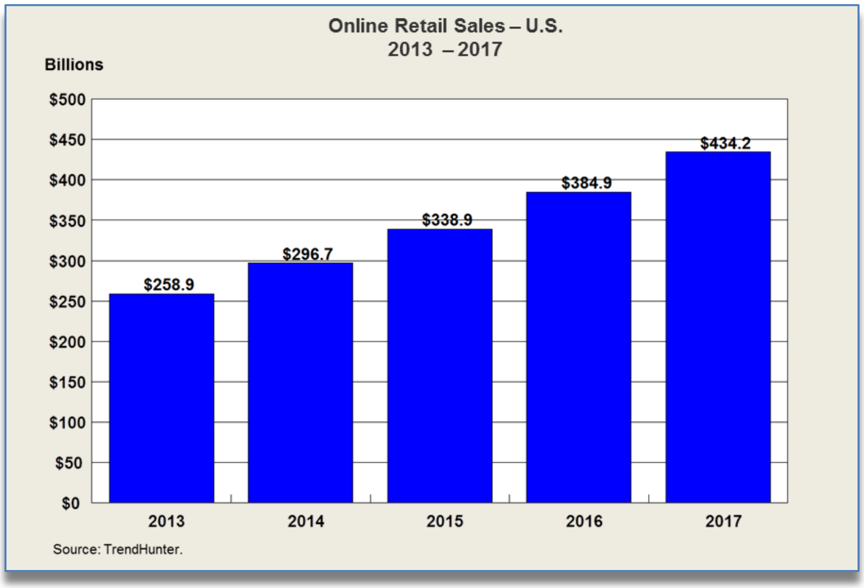
Retail real estate is undergoing a tsunami of changes, challenges, disruptive technologies and crises. As it shifts from an asset-centric to customer-centric business model – and very soon to a high-tech entertainment, experience-based model – retail is, has and will continue to be difficult for those who have been fixated on buildings while ignoring the consumer experience and new shopping paradigm. **During the next several years (2014 – 2020), the growth in retail will be derived from non-store transactions**. The collision of the digital and the physical worlds of retail has been driven by consumers who want an integrated shopping experience…*now*!

According to Kantar Retail's Global database, by 2020, non-store retail is expected to account for 12% of the overall U.S. retail marketplace. The wall-less, omni-channel, smaller footprint, income-segmented, fixed-income shoppers, and custom retail shopping experience will alter the need and purpose of many existing retail assets. **The retailer's future value chain will be without walls, time constraints or borders**. This channel fragmentation shift will require brick and mortar retailers to question where, when or why space should be leased. *How* consumers shop is more important than *where* they shop.

The evidence is in, and the trends reflect a rapidly changing retail environment. Sears is closing its flagship store in Chicago; JC Penney and Macy's are closing stores; Barnes & Noble is likely to close nearly one-third of its stores; Staples intends to close 225 stores by the end of 2015; Gameshop, Office Depot, RadioShack, the Gap, PacSun, Abercrombie & Fitch and Best Buy probably will close a portion of their stores; after 92 years, Loehmann's filed for bankruptcy; and Target recently announced it will not fill 700 open positions in the company. Kohl's has put its new store growth strategy on hold. Family Dollar Stores has announced plans to close 370 stores. Some owners of large malls are seeking to get out of centers with Sears and JC Penny as anchors.

According to some, retailers could announce upwards of 6,000 store closings in 2014. Among general merchandise retailers (department stores and discounters) and clothing stores, the number of non-managerial workers is down a little more than 2% over the past two years, while the total number of hours worked has declined more than 9%. **During the next five – 10 years, existing retailers could downsize their square footage by 30% - 50%.** According to one estimate, 10% of the nation's 1,000 enclosed malls could fail by 2022. While luxury retailers will continue to experience strong sales, many other retailers will be sales challenged!

Nearly 103,000 e-commerce retailers operate in the U.S., up from 90,501 in 2012. Nearly 24,000 online retailers generate at least $100,000 in revenue per year, up 11.7% from 2012. E-commerce generated $262 billion in sales in 2013. According to Forrester, Internet retail sales will be $370 billion by 2017, or 10% of all retail sales. **In addition, the U.S. Census Bureau is reporting that the median household income in 2012 was less (in current dollars) than in 1989**. According to the Employee Benefit Research Institute, 36% of workers in the U.S. have less than $1,000 in savings, and 60% have less than $25,000.



The 1Q 2014 GDP has slowed to an anemic 0.1%. Over the past 19 quarters GDP has grown only 11.1%. By comparison, the average gain for the previous 10 recoveries was 21.4%. **The nation's homeownership rate has slipped to 64.8 percent, its lowest level in 19 years**. Homeownership in the West is now 59.4%.

Homeowners are major retail consumers as they buy furniture, appliances, equipment, gardening supplies and other home operating/decorating items. Consequently, retail construction has declined. Year-over-year effective rents for retail space is growing at 1.5% – 1.6%. **I expect massive consolidation in the retailer and retail real estate sectors in 2014 – 2015 (potentially a record year).**

The two-parent family has declined rapidly, reducing funds available for discretionary retail purchases. Today, 25% of all American children live in single-parent households (twice the percentage of those in Europe…12%). More than 20% of children in single-parent families live in poverty long-term.

Furthermore, U.S. mortgage lending is at its lowest level in 14 years. Single-family home sales continue to decline (sales have fallen eight of the last nine months). What can these Americans afford to buy with such limited financial resources?

Amazon, whose 2013 revenues were $74.5 billion (up 22% from 2012), stated its slightly over 2 million marketplace vendors sold more than a billion goods globally in 2013. Amazon Prime subscribers now number 20 million. On Cyber Monday, Amazon's busiest shopping day of the year, more than 36.8 million items were ordered, posting a record-breaking sales of 426 items per second. **Amazon stated more than 50% of its customers shopped using a mobile device**. Recently Amazon announced intentions to increase its distribution footprint from 60 million to 90 million square feet by 2016. PayPal now has more than 142.6 million accounts. eBay sales in 2013 were $16.05 billion (in 2009 that total was only $8.71 billion). In 2014, mobile payment provider, Square, will reach $1 billion in sales. **The facts are indisputable**…the retail industry, retailers and owners/operators of retail assets are in for a roller coaster ride of surprises, disappointments,

Retail Is Going Digital

- ❑ The consumer has now taken hold of retail interactions.
- ❑ 66% of mobile shoppers comparison-shop online while in a retail store.
- ❑ 52% of online shoppers have purchased products directly from the manufacturers.
- ❑ Only 41% of Millennials shop at traditional grocery stores.
- ❑ By the end of 2014, 94 million Americans are expected to use tablets for mobile shopping.
- ❑ Online retail sales will reach $370 billion by 2017. Mobile commerce sales will reach $108 billion by 2017.
- ❑ There are over 328 million mobile phone users in the U.S.; in 2013, approximately 19.5 billion text messages were sent.

Source: CEL & Associates, Inc. and various sources.

challenges and opportunities. To quote Moliere, “The greater the obstacle, the more glory in overcoming it.”

The retail store has become “one of” but not “the only one” for consumer shopping venues. The rapid growth of “pure-play” retailers, the accelerated growth of online retail sales and the transforming role of technology in the shopping experience will continue to create a polarized marketplace. Some retailers and retail real estate owners may “get it” and can change/adapt, and others will attempt to play “catch up” but continuously fail to reach their potential. **Many retailers still dream of what used to be, not what is and what will be**. Afraid of making the best strategic decision, these soon-to-be dinosaurs continue to wait and hope for a reality that will not come. The ‘07 – ‘09 recession launched a transformation that is exciting, daunting, new, unchartered and forever different from yesterday.

The new world of retail will pit “immediate or impulse” retailers against the “price advantages” of online retailers. Left to figure it out will be the owners and operators of retail assets. The surviving retail real estate firms and investors will need to move from a tenant-centric to a consumer-centric/technology-based business model. If the customer is satisfied and enjoys the experience, the retailer will reap the benefits of increased sales. Engaging the customer and personalizing the experience will be the foundation of success. **Retailers and shopping center owners must become mutually dependent partners to meet the needs of the changing consumer**.

Today the consumer, not the retailer, is in charge/control of the retail experience and transaction. Enabling technology from pure-play and multichannel retailers, plus the growing acceptance/dependence upon mobile shopping devices, will contribute to a market share loss for many retailers. In today’s increasingly Internet-based world, shelf space is unlimited, inventories are irrelevant and the old term…location, location, location has been replaced by no store, no warehouse, no inventory. **Reduced market share and lower sales volume can mean only lower rents and tumultuous leasing activity in the years ahead**. Ultimately, shoppers will make the final decision, so owners and operators of retail real estate assets must understand consumer motivations and make the brick-and-mortar experience as compelling as the online experience.

Generational Shifts In Retail Shopping

View Of...	Baby Boomers	Xers	Millennials
Retailers	Trust the brand.	Trust the connectivity.	Trust the experience.
Groceries	Food as a necessity.	Food as a connector.	Food as a nutrient.
Frequency Of Shopping	Structured and consistent.	Based on time availability.	As needed...24/7.
Retail Motivation	Advertisements.	Ratings.	Word-of-mouth/Twitter.
Shopping	One stop.	Digital retailing.	Unlimited stops.
Physical Plant	Mega centers.	Smaller stores.	Omni-channel.
Restaurants	Place to eat.	Place to socialize.	Place to connect.
Stores	Place to see products.	Place to interact with products.	Place to experience products.
Display Space	Floor space.	Display space.	Mental space.

Source: CEL & Associates, Inc.

Further exacerbating the situation is the dynamic created by generational shifts. Each generation, as highlighted above, has a set of needs and expectations, and the shopping experience and motivators differ. **While consumer connectivity is shaping this wall-less retail environment, a more personalized “private conversation” between the consumer and his/her online retailer is occurring**. Other than grocery, personal needs, restaurants/food outlets and select repair shops, why go to a retail center? And with more 24/7 delivery options available, many of those retailers are encountering more, not less, competition. The impact of Instacart (New York City debut on March 26, 2014), and services like Fresh Direct are likely to be significant.

While the online shopping experience enables greater transparency and access to the opinions/perspectives of others who have purchased the product, the **brick and mortar retailers will continuously struggle to keep pace with the rapidly changing technology**.

Success in the future will be defined by proximity to, connectivity with and appeal to the consumer. Entertainment and psychological/sensory fulfillment are emerging as keys for success. The success of Freshplum's business analytics service. could spell trouble ahead for retail discounters. This shift will necessitate more precise, programmatic and practical retail centers. **Owners and operators of retail real estate assets must change to facilitate the *why*, *how* and *where* to shop decision. In the retail real estate sector, the "*Re*" in real estate will come to stand for *re*lationship, *re*liability, *re*ceptive and *re*deeming**.

Projected Compound Annual Growth Rates Of Retail Channels 2010 – 2016

E-Commerce	8.5%
Club Stores	4.9%
Dollar Stores	4.8%
Supercenters	4.6%
Pet Stores	4.1%
Drug Stores	2.7%
Convenience Stores	2.1%
Supermarkets	1.5%
Liquor Stores	1.2%

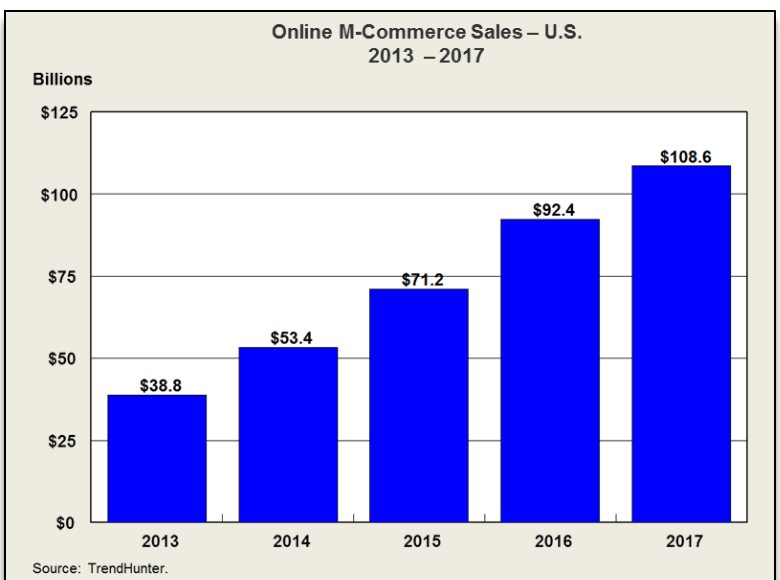
Source: Nielsen May 2013.

While I like ethnic retail, tertiary retail, high touch/experience grocery and select specialty retailers (e.g. REI, Cabelas, Apple Stores, etc.), retailers must be concerned over the rapidly growing number of competitors and/or new distribution/sales channels. Privacy will become a new business as well to "reassure" customers that their purchase data is safe. The 40 million or so credit and debit card details hacked from Target's data is a precursor of the likely breeches of security yet to come.

A Look Back

In ancient Greece, the word "*Agora*" meant an "open place of assembly." **Later *Agora* defined the open-air, often tented marketplace where merchants and craftsmen had shops and sold their goods**. The original *Agora* of Athens was located below the Acropolis. It was in the *Agora* that Socrates spoke eloquently on the meaning of life. In the *Agora*, the marketplace was not only a place to buy and sell goods and services, but a place to exchange ideas and gather for entertainment, information and enlightenment.

As the world evolved, the ***Agora* was replaced by moment-in-time shopping**. During the Renaissance, for example, the action of selling or displaying goods and negotiating prices often was embedded in assumptions, beliefs, relationships, cultural preferences, influence of gender and social class. By the 1720s, 400 Parisian coffee houses (a precursor to today's Starbucks gathering place concept) made the retail experience one of dialogue and an exchange of news. **By the Age of Reason (late 1700s) the retail experience had become a place of learning**.



It wasn't until the Machine Age that the retail experience shifted from a place to gather/share and shop, to a place to shop and take home to gather and share.

The general concession was that the prosperity of America was built on spending, not saving. This consumer shift challenged retailers in the 1930s as a national consumer movement. Then WWII shifted focus to the public interest and a subordination of the consumer to the needs of the nation. The post-WWII normalcy became a revved-up engine of mass consumption. A mobilization for abundance was underway, beginning with the purchase of a new home and all the amenities that went with it. **Consumer credit created an admission ticket to prosperity**.

After WWII, *Life* magazine led a charge toward mass consumption as a civic responsibility to create jobs, improve the standard of living and accelerate prosperity. **"More, newer and better" were the hallmarks of a good citizen**. New housing construction exploded and consumers were "obligated" to buy appliances and furnishings for their new home and growing family. The ability to purchase a home with an inexpensive long-term mortgage gave the consumer more money to spend on retail items. Retail centers were developed around these new suburban population centers and the automobile (using the new gas credit card) gave consumers access to retailers across town and in nearby communities. By the late 1950s, the middle class had arrived. However, this new suburban-based consumer model started the downturn for CBD retailers.

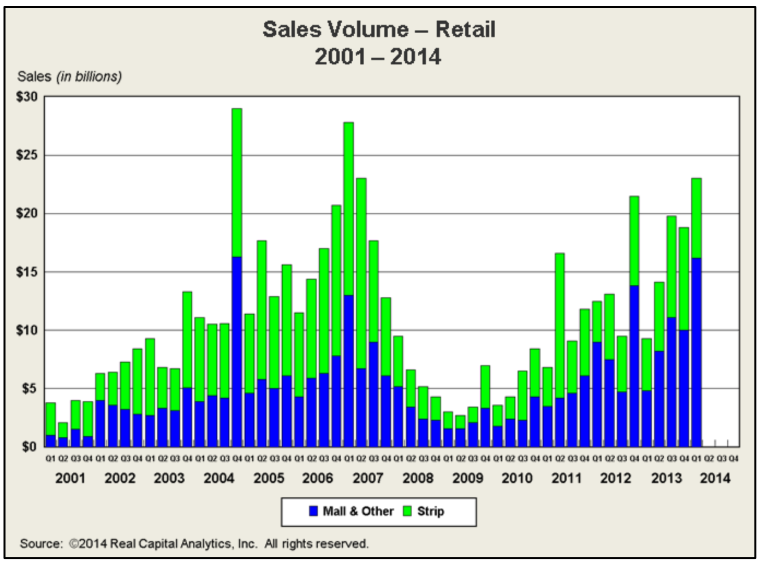
As suburban retail grew, so did the shift from males to females as the primary decision-maker for many shopping items. Shopping centers were designed to appeal and cater to women's needs (easy parking, department stores, security guards, safe "public space" and special events). Women "shopped" during the day and "purchased" at night (when their husbands accompanied them). Again, credit cards were a woman's access to family income. Private spaces, like shopping centers, replaced the public space for shopping. **Retail real estate had arrived!**

Looking Back

Year/Period	Corresponding Event
Machine Age 1880 - 1945	The retail experience shifted from a place to gather/share and shop, to a place to shop and take home to gather and share. ♦ 1880 Edison receives patent for an electric lamp. ♦ 1913 refrigerators for home and domestic use invented (Kelvinator).
1861	British entrepreneur Pryce Pryce-Jones set up the first modern mail order.
1894	First Sears catalog published. ♦ Variety and choice included fabric swatches, color photos. ♦ "Club Order Program" encouraged customers to combine orders with friends or neighbors to share in discounts.
1915	Indoor mall prototype was the Lake View Store at Morgan Park, Duluth, Minnesota.
1916	Clarence Saunders opened the first self-service grocery store, Piggly Wiggly, in Memphis, Tennessee. The store incorporated shopping carts, self-service branded products and checkouts at the front. The concept of the "Self-Serving Store" was patented by Saunders in 1917.
1930	King Kullen Grocery Co., Inc., founded by Michael Cullen (in Queens), is recognized by the Smithsonian Institution as "America's First Supermarket." Cullen's "supermarket" concept included having a large store (at low rents) ample parking, no delivery service plus a focus on low prices and cash sales.
1946	The suburban shopping center concept evolved further in the U.S. after WWII, and the mall came into being as Americans know it today with the opening of Bellevue Shopping Square, Washington, in 1946.
1930 - 1960	♦ Merchant "Charga-Plate" developed for purchases within individual stores. ♦ In 1958 the *revolving credit* financial system was developed which brought the consumer, the merchant and the bank together in each transaction.
1979	Online shopping is created by Michael Aldrich, an English inventor.
1990	The first Web server and also an early Web browser, WorldWideWeb created.
1995	Amazon and eBay up and coming.

As highlighted in the previous chart, **retail has moved from a product to a commodity**. Price, access and media-driven consumerism were driving the retail experience. The luxuries of today become the necessities for tomorrow. **Real estate developers were rapidly building malls, community and strip centers and fast-food facilities to bring the market to the people rather than the people to the market**. Demographic shifts, time compression and the pursuit of the American Dream drove retail asset growth. By the 1950s – 60s, retail shopping became more about "keeping up with the Joneses" and a reflection of perceived self-worth. Suburban retail exploded as the urban areas became less desirable places to live. Convenience, safety, newness, ease of parking and better store designs were cited as reasons to "shop in suburbia."

Between 1960 and 1970, more than 8,000 retail centers were developed. It didn't take great skill to succeed at that time…one needed only a site and a readily available loan. These shopping centers, many of them malls, drove a spike in the heart of Main Street retail for decades to come, and retail became a mass-produced commodity, rather than a product made by craftsmen. Encouraged by inexpensive debt, ability for consumers to pay by credit card and use their homes as ATMs, retail was the leading poster child for a credit bubble yet to come.



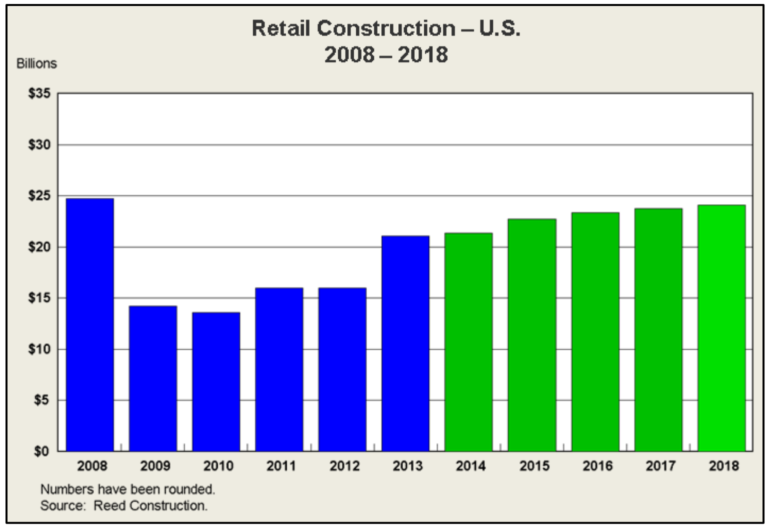
By the 1970s, market segmentation was introduced, and retailers shifted away from "selling to the middle." Marketing companies were created and focused on age, lifestyle, gender, affluence, education and ethnicity. Retailers sought to fill a market niche and distanced themselves from trying to be all things to all people. Vance Packard's landmark book, *Hidden Persuaders*, created **an army of market researchers and consumer opinion experts who shifted the retail focus from "who" and "what" to "why" people bought products**. The Age of Advertising was upon us…a combination of psychographics, the rapid growth of television and advertising segmentation. The retail center was where people went to purchase what advertisers told them they "must" have. **This was the beginning of the "Me Generation" Baby Boomers**…as parents began to lose control of their children's shopping preferences. Furthermore, between 1960 and 1978 a flood of consumer legislation was passed to protect, regulate and guide the consumer. Throughout the 1980s and 1990s, Internet growth further segmented the consumer and retailer product and service options. The move from mass consumption to personalized consumption was underway. **The public town square of the *Agora* became the privatized space for personalized purchases and detached social interactions**.

The recession of '07 – '09 caused Americans to reassess their consumption and retail needs. The "Great Unwind," labeled the rapid deleveraging, put consumers back in the drivers' seat for their retail decisions. Internet behemoths such as eBay, Amazon and other e-commerce retailers cemented their relationships with the **consumers, who no longer needed to leave their home to shop**. Also, the commoditization of retail sales personnel made giving up the in-store shopping experience an easy decision.

The retail experience which began as the *Agora*, became the Internet…still providing a place for gathering, communicating and shopping. **The retail industry has come full circle; however, today the consumer is in control of what, when and where to shop**. The consumer can determine what he/she wants to pay and often relies upon social media to be the *Agora* for references and ratings.

The Retail Consumer Is Changing

It is no longer as simple as drawing a three- or five-mile circle and quantifying consumer demand based on population, demographics and household income. **Today consumers are increasingly making retail decisions based on lifestyle needs, financial ability and community/environmental concerns**. In a very democratized retail marketplace where the consumer is just one click away from either purchasing or declining a purchase, consumers have a cornucopia of global shopping options, quickly transmitted from a home or PDA. The plethora of shopping options gives consumers a broader capacity to make choices based on greater social, environmental and community awareness, resulting in higher credibility and trustworthiness. Fixed assets (buildings) cannot provide this "choice" assurance.



Coupons, flash discounts, pricing premiums, loyalty cards, and private labeling have and continue to contribute to the emergence of the "Instavidual" shopper. As researchers note, the "mass consumer has become a hybrid consumer." **The consumer's search for value mandates a real estate platform that engages in the total customer experience**. Shoppers want and expect cross-channel shopping options. When visiting a brick and mortar retailer, shoppers want an experience and seek a reason to go and stay. As retailers struggle with maintaining margins in a highly competitive marketplace, one savior is the ability of an enhanced real estate asset to draw customers. Amid a sea of turmoil and change, retail real estate owners and operators can be valued partners in facilitating retail growth. However, this means a shift from a property-centric to a consumer-centric business model and ultimately to a high-tech, engaging and personalized entertainment model. **Undoubtedly we will see fewer, smaller and better connected and branded stores**.

What Business Are You In?

I am not convinced that many owners and operators of retail real estate assets truly know what business they are in. For most, the mistaken belief prevails that they are in the real estate development, service or investment business. However, in the new paradigm, retail real estate owners and operators are in a conversation with the consumer as engagement, shopping preference and valued experiences take precedence.

Consumers, not the tenant, decide where and when they want to shop. According to a recent Ernst & Young study, only 25% of Americans said brand loyalty affected how they shopped. A fully leased center that does not engage and converse with potential customers is soon to be a workout. Retail real estate firms, regardless of size, must create personalized experiences, offer high-quality, interactive venues and provide non-shopping programmatic options.

In the New Normal, retailers must:

1. Have multi-channel options.
2. Seek strategic alliances with complimentary and synergistic allies.
3. Accept online purchase returns.
4. Create more showroom space and offer more convenient product pick up, delivery and/or return options.
5. Locate in retail centers that offer programmatic features.

For owners and operators of retail assets who are not ready to transform their business model, it may be a good time to get out and let those who want to compete in this new point-and-click world take charge. **Today the entire process of retailing is clearly a young person's game, and the owners/operators of retail assets must respond proactively or be left behind**.

What Owners / Operators Of Retail Real Estate Assets Must Do To Remain Relevant

- ❑ Must not be perceived as static, tired, old or a digital dinosaur.
- ❑ Create multi-generational rather than population-based retail centers.
- ❑ Replace or install numerous interactive digital screens (games, sports, weather, news, discounts, music videos, etc.), to engage the shopper.
- ❑ Redevelop/upgrade existing centers with progressive architecture, environmentally-friendly products, amenities, landscaping and dynamic storefronts.
- ❑ Add a programmatic element to each center's design and daily events.
- ❑ Examine the inclusion of the complete value chain of tenants (including healthcare, community service, education, etc.).
- ❑ Make sure every center is a digital center for connectivity and social interaction.

Source: CEL & Associates, Inc.

The retail center of tomorrow must offer entertainment, education, fulfillment and valued shopping experiences. Retail real estate developers must create engaging relationships with all stakeholders. Retail centers must be a destination where people want to be rather than a place they must go to conduct a transaction. **The shopping center of today must become the consumer center of tomorrow**. Retail giants such as the Simon Property Group, Macerich, Westfield and General Growth Properties understand this and have taken significant steps to combat Internet sales creep. Remember, at the end of the day, consumers are still tactile and react to sensory perceptions.

Emerging Trends Mandate…

- ❑ Disposition of non-core assets in low growth markets.
- ❑ Build a portfolio of "A" assets in growth markets.
- ❑ Focus on creative class, university, capital cities and both coasts.
- ❑ Align with growing anchors (Whole Foods, major ethnic groceries, etc.).
- ❑ Seek in-fill development projects in/adjacent to urban areas.
- ❑ Enhancement of the tenant and consumer experience.
- ❑ Strengthen the balance sheet for the next downturn.
- ❑ Develop recurring tenant development/acquisition opportunities.
- ❑ Take a "Fresh Look" at the relevance/attract-ability of each center.

Source: CEL & Associates, Inc.

In the future, retail real estate owners and operators must shed the asset-centric focus and embrace a more customer-centric mantra. Retail centers must be operationally flexible, provide easy-to-change format flexibility, and leverage technology and data mining opportunities. **By 2020 the retail industry will have become a battlefield of chain competition and well-capitalized retail asset owners**.

Retail real estate owners and operators are in a business that is far more consumer-based and much less asset-based. The proliferation of small "alternative" formats, farmers' markets and consumer-friendly retail options mandate better understanding of consumer behavior.

While the discount channel will continue to grow, **the real opportunity is in "experience retail."** Brick and mortar retail will be more showroom and multichannel connective points along the shopping highway. Because the cost of procuring a shopper is so high, retail real estate owners/operators will need to shift the focus to facilitating the collection of consumers – not just the collection of rents. This facilitation can involve strategic partnering, adding programmatic elements and entertainment options.

Having an omni-channel playbook will be essential for retailers and owners of retail centers. The rapid integration of iBeacon in smartphones will guide consumer purchase patterns. More than 75% of teenagers shop online. Nearly 3.7 million retail establishments operate in the U.S., and the top 500 retailers have a 77% market share. There are over 150,000 convenience stores in the U.S. The generational shifts underway today mandate a more customer-friendly, engagement-based business model to achieve a competitive advantage in the future.

Looking Ahead

The retail real estate industry is in a conundrum. It is daunting to be confronted with retailers who are aggressively seeking to succeed in a competitive environment and owners of fixed real estate assets that may not be reflective of the new retail shopping experience. The speed of change, the global economics of procurement, greater transparency in the shopping experience and perpetual connectivity bring into question the future for brick and mortar retail assets. I expect the volume of retailer consolidation to accelerate as survival takes precedence over same-old-same-old decline of profits and market share.

The Future Of Brick-And-Mortar Stores

Why B-A-M Stores Lose	Why B-A-M Stores Win
– Pricing	– Convenience
– Too Much Floor Space For Category Killers	– Sensory Interaction
– Lower Inventory Turns	– Personalized Selling
– High TI Investment	– Knowledgeable Sales Personnel
– High Rent	– Try-And-Buy
– No Answer To “Why Shop Here?”	– In-Store Experience
– Negative Yelp Reviews	– Loyalty Programs
– Not Data-Miners	– Implement NBO Strategy
– Not Able To Connect 24/7	– Can Offer Both Online & In-Store

Source: CEL & Associates, Inc.

While I am optimistic that several retailers and retail sectors will do very well, the overall retail real estate business model must change. How can many brick and mortar retail centers share in a world of downsizing, customization, in-home manufacturing, outsourcing, 24/7 delivery, value pricing information exchange, instant discounts, social media ratings and convenience? With shrinking profit margins, how can retail tenants “afford” to pay the rent? How can retailers compete for customers if the retail center is not perceived as a desirable destination?

To achieve a strategic advantage, retail centers must embrace the 10 “Must Dos” highlighted on the next page. **Owners and operators of retail centers must know the customers of their customers**.

The primary theme is more customer connectivity; more focus on creating recurring, valued consumer experiences; and to become more of an extension of individual shopper needs connecting customers to their preferences during a compelling in-store experience. Retail real estate owners must manage square foot erosion, redefine the target shopper segments, utilize pop-up stores and flash websites and venture beyond their comfort zone. With assistance from the retail center’s owner/operator, retailers must create a brand experience that motivates a transaction and return visit. Perhaps “made-to-order” will apply to more than a food order.

By 2020, some retailers will be using automated human or animal avatars. Retail real estate operators must find retail tenant synergies and forums to launch tech-based shopper interactions. **Get used to the “endless-aisle” online and make brick and mortar centers more ideal for online fulfillment centers**. Centralized/shared warehouses could become commonplace. An incredible amount of change is underway, with more to come in an industry accustomed to reactive rather than strategic solutions.

Ten “Must Do” Items For Retail Centers

Retail Centers Must:

1. Become extensions of consumer behavior and individual needs.
2. Create shopper architecture and compelling experiences for recurring interaction.
3. Create onsite social media experiences and recurring reasons to shop.
4. Make it easy for the customer to interact.
5. Require all tenants to have a contemporary online portal.
6. Create a “choosing” not a “shopping” experience.
7. Seek ways to increase the length of stay and capture a greater share of the “retail wallet.”
8. Align the center around the customer, not the tenant.
9. Create a valued non-traditional experience, not a place to shop.
10. Create real-time promotions (one-hour sales, in-store moments of opportunity).

Source: CEL & Associates, Inc.

Closing Comments

The retail real industry is undergoing dramatic and transformative changes. **Owners and operators of retail real estate must rethink the basic tenets of their business**. By definition, retail centers must integrate the dynamic and the sublime…immersing customers in a valued and memorable experience they want to repeat and share with friends. The combination of transparent, web-based information with entertainment will overcome the mundane/tedious, point-and-click online shopping experience. **Retail real estate owners and operators must touch/interact with all senses and engage the customer in fulfillment of an ever-changing set of needs, wants and expectations**. Retail real estate companies – public and private – must shake up their Board of Directors and Executive teams to open the doors to new ideas, new perspectives and a fresh way of approaching the new model of owning and operating retail assets. We now have a web-based lifestyle, operate in a web-based world, work in a web-based environment and think of technology first. The owners and operators of retail centers must acknowledge, embrace and respond. **The digital family has replaced the nuclear family**. Our private lives are now public in an information-sharing marketplace. We don’t go to work – work comes to us. **We don’t go shopping – shopping comes to us**.

In an age of change, now is the time to rethink your retail asset strategy or forever wonder why you were left behind on the new retail highway of opportunity.

I would welcome comments, insights or ideas; please email them to newsletter@celassociates.com.

Regards,

Christopher Lee

SPECIAL ANNOUNCEMENT

Due to an increasing number of requests from Owners and Boards of Directors to assist:

- Finding secure/stable long-term financial partners.
- Owners wishing to sell all or a portion of their company.
- Finding a long-term source of capital to facilitate growth.

CEL & Associates, Inc. has formed: **CEL Capital Advisors**

For small to mid-size real estate companies, including: developers, service providers, owners/operators and investors who want to secure their future, monetize enterprise value, develop succession planning, and/or accelerate growth strategies, contact **CEL Capital Advisors**. A conversation regarding your current business strategy and need for capital may provide the optimal solution. **CEL Capital Advisors** can be reached by calling 310.571.3113. (Jeff Hawkins, Managing Director)

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